April 14, 2014

Mr. Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Via Agency Website

Re: Docket No. 1479 and RIN 7100 AE-10: Complementary Activities, Merchant Banking Activities, and Other Activities of Financial Holding Companies related to Physical Commodities, Advance Notice of Proposed Rulemaking

Novelis Inc. appreciates the opportunity to respond to the Board of Governors of the Federal Reserve System's (the "Fed") Advance Notice of Proposed Rulemaking regarding the activities of Financial Holding Companies ("FHCs") related to physical commodities (the "ANPRM"). We are submitting these comments to provide our thoughts on how additional restrictions on FHCs' ability to trade in physical commodities will have a detrimental impact on end-users that manage their businesses and risk through transactions involving physical commodities and financial instruments derived from commodities.

Our answers to some of the Fed's specific questions raised in the ANPRM are set forth in the attached appendix.

Background on Novelis

Novelis is the world's leading aluminum rolled products producer. We produce aluminum sheet and light gauge products primarily for use in the beverage can, automotive, specialties (including transportation, consumer electronics, and architecture) and foil markets. During the twelve months ended December 31, 2013, we shipped approximately 2,840 kilotonnes of flat rolled products and had net sales of approximately $10 billion. We are also the global leader in the recycling of aluminum. We have recycling operations in many of our plants to recycle aluminum, such as used-beverage cans ("UBCs"). As of December 31, 2013, we had manufacturing operations in nine countries on four continents - North America, South America, Asia and Europe - through 25 operating facilities, including recycling operations in ten of these plants. In addition to aluminum rolled products plants, our South American businesses include primary aluminum smelting and power generation facilities.

Novelis' Hedging Transactions

There are three sources of input material for manufacturing aluminum rolled products: (1) primary aluminum in sheet ingot from primary smelters, (2) Primary aluminum in P1020 form to control the final chemical composition of products in our casthouses and (3) recycled aluminum, such as recyclable material from fabrication processes and UBCs. Primary aluminum and sheet ingot can generally be purchased at prices set on the London Metal Exchange ("LME"), plus a premium that varies by geographic region of delivery, alloying material, form (ingot or molten metal) and purity. Because Novelis operates as a standalone aluminum company without an upstream business to supply inputs, we are exposed to fluctuating metal prices between the time the price is set for the raw materials that we buy from our suppliers and the time the price is set for the products that we sell to our customers. Novelis attempts to preserve its conversion margins (that is, the process of converting primary or recycled metal

into rolled aluminum sheet) and remove the resulting price volatility from earnings by engaging in hedging transactions. To hedge, Novelis buys (or sells) futures contracts (or other suitable derivative products) equal and opposite to its underlying physical position. In particular, we sell short-term LME aluminum forward contracts to reduce our exposure to fluctuating metal prices associated with the period of time between the pricing of our purchases of metal and the pricing of the sale of the products produced from that metal to our customers. We also purchase forward contracts when we enter into transactions that contain fixed metal prices with our customers. These LME aluminum forward contracts directly hedge the economic risk of future metal price fluctuations to ensure we sell metal as close as possible to the price at which we purchase metal. It is critical for our business to be able to access the derivatives market in a timely manner to engage in these hedging transactions so that we may eliminate or mitigate metal price risk, maintain stable cash flows and serve our customers.

How we interact with FHCs in hedging transactions

FHCs act as the hedging counterparty in nearly all of our hedging transactions. By acting as a counterparty in the aluminum futures market, FHCs allow Novelis and other aluminum market participants to shift the metal price risk associated with aluminum to creditworthy third parties. Having multiple FHCs that participate in the aluminum futures market available to us has helped keep hedging transactions costs relatively low and stable and given manufacturers in the aluminum industry improved liquidity. FHCs provide Novelis with well-regulated counterparties/market-makers with which Novelis can efficiently transact at the appropriate points in time when needed to best manage our risk. In our experience, FHCs are some of the most creditworthy counterparties available, with the market experience and the means to handle market volatility. In addition, FHCs also offer local market premium hedging (that is, hedging the premium over the LME index price for delivery to a particular market) through OTC transactions, which is a space with growing importance with relatively few participants.

If FHCs were prohibited (or highly restricted) from engaging in hedging transactions with Novelis and we were unable to engage in hedging transactions with other creditworthy, properly-regulated counterparties in a similar manner to manage risk, our results of operations, cash flows and liquidity could be adversely affected. For example, losing FHCs as counterparties would significantly reduce the credit available to us to engage in all of the hedging activity necessary to operate our business as we currently do. Further, FHCs' ability to offer a suite of services, including funding, financing, and hedging products in different asset classes, provides us and other end-users with the ability to manage our business risks conveniently and cost-effectively.

Other Important Ways Novelis Works with FHCs

Overview

FHCs play an important and irreplaceable role in aiding Novelis' working capital goals by holding metal until it is delivered to us or until we need it and offering Novelis extended payment terms on certain transactions. Without these services from FHCs, our results of operations, cash flows and liquidity could be adversely affected.

FHCs are able to provide these services at a relatively low cost because they are able to benefit from the contango in the market (*i.e.*, the price of metal in the future being higher than the spot price). If FHCs were restricted from transacting in the physical or derivative aluminum markets, they would lose the benefits derived from contango and likely no longer being incentivized to provide these services to companies like Novelis.

Carry Trades and Repos

At times, metal may be available from suppliers to Novelis at favorable prices and quantities. If we do not have an immediate need for the metal but anticipate making use of such metal in the near future, we may ask an FHC to purchase the metal and then sell it to us based on agreed formula when we need it. This allows Novelis to more effectively manage inventory levels and working capital, including by capturing supplier capacity when it is available at favorable prices, which may not align with our demand timing (*e.g.*, differences caused by seasonality).

Another similar scenario, sometimes referred to as a "Repo," is when Novelis is holding excess inventories of metal that we are unable to use at that time or in the near future. In these situations, we may ask FHCs to purchase the excess inventory and then sell it to us when we need it. Again, this allows us to more effectively manage our inventory levels and working capital.

FHC as Intermediary

Another key way Novelis transacts with FHCs is by having them act as an intermediary between Novelis and geographically distant smelters. For example, shipments from remote suppliers often travel several thousand miles before arriving at our plants. The approximate in-transit time for such shipments can average five to six weeks. Without an FHC as an intermediary to take ownership of and move this inventory, either Novelis or the supplier would tie up working capital that could be put to better use managing the needs of its business. Instead, the supplier sells this inventory to the FHC and is paid immediately. The FHC carries the inventory on its books while it is in-transit to our plants, at which point Novelis may also get extended payment terms after delivery. It has been our experience that both the supplier and Novelis gain a working capital advantage through this intermediation compared to a traditional direct sales model. This is an important service from FHCs that we view as integral to our and our industry's business practices.

Consignment Stock

One more important service FHCs provide is carrying our prime aluminum inventory, on a consignment basis, at our numerous locations. If we experience an unplanned surge in prime aluminum usage (which occurs with some regularity), we would be able to pull from the FHCs' consignment stock instead of carrying an excess buffer of such inventory on our books during these times. This allows us to reduce our book inventory and manage working capital.

FHCs have also aided Novelis in dealing with our suppliers' maintenance planning. For example, a supplier will pre-produce sheet ingot as capacity is available, usually months before a planned outage. An FHC purchases this metal and carries the inventory on its books while it is in-transit to a Novelis plant, and the FHC holds the material on consignment until we need the units during the supplier's outage. This allows us to reduce our book inventory and manage working capital.

Our Concerns with FHCs in Physical Commodity Markets

Despite the benefits of allowing FHCs to trade in physical commodities, Novelis believes that some additional restrictions are necessary. Allowing FHCs to combine ownership of physical metals and commodities trading with ownership of storage facilities (warehousing) of physical commodities has a detrimental effect on the aluminum market and opens up the risk of market manipulation of the LME, local market premiums and forward curve dynamics. The potential risk of market manipulation from a single firm owning interests in both derivative and physical storage is simply too great. Separating ownership of storage facilities from ownership of physical metals would significantly reduce the risk of manipulation.

Conclusion

For the foregoing reasons, we believe that the Fed should take a measured approach in placing additional restrictions on FHCs engaging in physical commodities activities. We and other end-users rely on FHCs as reliable, regulated counterparties for physical commodity activities, and restrictions that could drive FHCs out of this space or increase costs for end-users would negatively affect our ability to manage our risk and businesses. We respectfully request that the Fed take negative impacts on end-users into account when considering any rulemaking in this area, possibly relying mainly on continued regulation of FHCs within the current regulatory framework.

Again, we appreciate the opportunity to comment and offer our time to answer any questions the Fed may have as it analyzes the proposed rulemaking.

Sincerely,

NOVELIS INC.

Nick Madden
Senior Vice President and Chief Supply Chain Officer

APPENDIX

Question 1. What criteria should the Board look to when determining whether a physical commodity poses an undue risk to the safety and soundness of a FHC?

No response.

Question 2. What additional conditions, if any, should the Board impose on Complementary Commodities Activities? For example, are the risks of these activities adequately addressed by imposing one or more of the following requirements: (i) enhanced capital requirements for Complementary Commodities Activities, (ii) increased insurance requirements for Complementary Commodities Activities, and (iii) reductions in the amount of assets and revenue attributable to Complementary Commodities Activities, including absolute dollar limits and caps based on a percentage of the FHC's regulatory capital or revenue?

Novelis believes that allowing FHCs to combine ownership of physical metals and commodities trading with ownership of storage facilities (warehousing) of physical commodities has a detrimental effect on the aluminum market and opens up the risk of market manipulation of the LME, local market premium and forward curve dynamics, and, thus, should be restricted significantly more than it is today.

In addition to prohibiting FHCs' ownership of storage facilities, the Board should consider enhancing reporting requirements to improve transparency with respect to FHCs' ownership by commodity, volume, value and location. This enhanced transparency would reduce the risk of potential market manipulation. See our answer to Question 5 for further discussion of the potential for market manipulation by FHCs.

We do not believe, however, that other conditions relating to Complementary Commodities Activities would improve the risk profile of FHCs relative to Novelis, as there is not a significant amount of market risk added to the system when FHCs are allowed to combine ownership of physical metals with commodities trading. It is worth noting that provisions relating to derivatives transactions under the Dodd-Frank Wall Street Reform and Consumer Protection Act of July 21, 2010 already place significant requirements on FHCs.

Question 3. What additional conditions on Complementary Commodities Activities should the Board impose to provide meaningful protections against the legal, reputational and environmental risks associated with physical commodities and how effective would such conditions be?

Please see our answer to Question 2.

Question 4. To what extent does the commitment that a FHC will only hold physical commodities for which a futures contract has been approved by the CFTC or for which the Board has specifically authorized the FHC to hold adequately ensure that physical commodities positions of FHCs are sufficiently liquid? What modifications to this commitment, including additional conditions, should the Board consider to ensure that a FHC maintains adequate liquidity in its commodity positions?

No response.

Question 5. What additional commitments or restrictions are necessary to ensure FHCs engaging in Complementary Commodities Activities do not develop unsafe or unsound concentrations in physical commodities?

Novelis believes that allowing FHCs to combine ownership of physical metals and commodities trading with ownership of storage facilities (warehousing) of physical commodities has a detrimental effect on the aluminum market and opens up the risk of market manipulation of the LME, local market premium and forward curve dynamics, and, thus, should be restricted significantly more than it is today. Novelis believes that the potential risk of market manipulation from a single firm owning interests in both derivative and physical storage is simply too great to rely solely on "Chinese Wall" policies. Separating ownership of storage facilities from ownership of physical metals would significantly reduce the risk of manipulation.

Here is a quick explanation on the price dynamics of aluminum supply:

The LME price is limited to the price of aluminum ingot purchased on the LME Exchange in warehouse. The LME price does not cover many other costs associated with purchasing and receiving shipments of aluminum, such as cost of warrant cancellation, warehouse rent, Free on Truck (FOT) charges, insurance, interest expense, and freight delivered to destination. These costs are components of the local market premiums (such as Platt's Midwest Premium, Metal Bulletin's Duty Paid/Duty Unpaid and Major Japanese Port (MJP)). Local market premiums are a component of the full cost of aluminum purchased and sold around the world. However, the transparency and applicability of these premiums to ongoing sales of aluminum is a concern. Allowing FHCs to be involved in the ownership, trading, and storage of aluminum provides the incentive and the opportunity to manipulate local market premiums in order to boost profits.

For your reference, we have attached the following articles further explaining this issue:

- *"The great LME debate: Nick Madden explores how the warehousing situation developed." Aluminum International Today, March/April 2014 Issue.*
- *"A Shuffle of Aluminum, but to Banks, Pure Gold." New York Times, July 20, 2013*
- *"The Vampire Squid Strikes Again: The Mega Banks' Most Devious Scam Yet." Rolling Stone. February 12, 2014.*

Question 6. Should the type and scope of limitations on Complementary Commodities Activities differ based on whether the underlying physical commodity may be associated with catastrophic risks? If so, how should limitations differ, and what specific limitations could reduce liability from potential catastrophic events?

No response.

Question 7. Does the commitment not to own, operate or invest in facilities for the extraction, transportation, storage, or distribution of commodities adequately insulate a FHC from risks associated with such facilities, including financial risk, storage risk, transportation risk, reputation risk, and legal and environmental risks? If not, what restrictions should the Board impose to ensure that such extraction, transportation, storage or distribution facilities do not pose safety and soundness risks?

No response.

Question 8. Do Complementary Commodities Activities pose risks or raise concerns other than those described in this ANPR, and if so, how should those risks or concerns be addressed?

Please see our answer to Question 5.

Question 9. What negative effects, if any, would a FHC's subsidiary depository institution experience if the parent FHC was not able to engage in Complementary Commodities Activities?

No response.

Question 10. How effective is the current value-at-risk capital framework in addressing the risk arising from holdings of physical commodities? Would additional or different capital requirements better address the potential risks associated with Complementary Commodities Activities?

No response.

Question 11. What are the similarities and differences between the risks posed to FHCs by physical commodities activities, as described in this ANPR, and the risks posed to nonbank financial companies supervised by the Board ("nonbank SIFIs")? How do the safety and soundness and financial stability risks posed by physical commodities activities differ, if at all, based on whether the nonbank SIFI controls an IDI?

No response.

Question 12. What are the similarities and differences between the risks posed to FHCs by physical commodities activities, as described in the ANPR, and the risks posed to savings and loan holding companies that may conduct such activities? How do the safety and soundness and financial stability risks posed by physical commodities activities differ, if at all, based on whether the savings and loan holding company is or is not affiliated with an insurance company?

No response.

Complementarity of Current Activities

Question 13. In what ways are non-BHC participants in the physical commodities markets combining financial and nonfinancial products or services in such markets?

Contango financing is utilized by non-BHC participants to offer similar services as outlined in our letter to which this Appendix is attached (e.g., carry trades, intermediation and consignment stock). However, FHC participants are typically more competitive on a total cost basis due to their lower cost of capital and market experience and expertise at managing the risks associated with physical exposure and trading among various market participants. Some non-BHCs also offer local market premium hedging services via OTC trades or through physical metal pricing. As discussed in our letter to which this Appendix is attached, both FHCs and non-BHCs should be allowed to participate in these activities to ensure that sufficient credit limit availability exists for market demands.

Question 14. What are the complementarities or synergies between Complementary Commodities Activities and the financial activities of FHCs? How have these complementarities or synergies changed over time?

FHCs' ability to offer working capital improvements to Novelis at attractive costs is facilitated by their involvement in both physical and financial markets. Specifically, the cost of various inventory carrying services is offset by the contango financing benefits that the FHCs receive through their derivative activities. In addition, FHCs' appetite for extending payable financing on physical metal supply has improved Novelis' cash flow position. Please see the letter to which this Appendix is attached for further explanation.

Over the last few years, demand for these Complementary Commodities Activities has increased not only for Novelis but also throughout the global aluminum market, primarily driven by increased focus on working capital and cash flow objectives.

Question 15. What are the competitive effects on commodities markets of FHC engagement in Complementary Commodities Activities?

In general, the FHCs help maintain competitive pricing dynamics in the market via lower cost of capital relative to non-BHCs.

Please see our answers to Questions 13 and 14 for further discussion.

Question 16. Does permitting FHCs to engage in Complementary Commodities Activities create material conflicts of interest that are not addressed by existing law? If so, describe such material conflicts and how they may be addressed.

Novelis believes that allowing FHCs to combine ownership of physical metals and commodities trading with ownership of storage facilities (warehousing) of physical commodities has a detrimental effect on the aluminum market and opens up the risk of market manipulation of the LME, local market premium and forward curve dynamics, and, thus, should be restricted significantly more than it is today. Please see our answer to Question 5 for further discussion.

Question 17. What are the potential adverse effects and public benefits of FHCs engaging in Complementary Commodities Activities? Do the potential adverse effects of FHCs engaging in Complementary Commodities Activities, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, unsound banking practices, or risk to the stability of the United States banking or financial system, outweigh the public benefits, such as greater convenience, increased competition, or gains in efficiency?

In general, Novelis believes that the participation of FHCs in Complementary Commodities Activities, in totality, has much greater benefits than risks. The primary risk of market manipulation can be mitigated by prohibiting warehouse ownership; whereas restricting FHCs' ability to engage in Complementary Commodities Activities would burden global manufacturing with a sharp increase in costs and working capital requirements.

Question 18. In what ways would FHCs be disadvantaged if they did not have authority to engage in Complementary Commodities Activities? How might elimination of the authority affect FHC customers and the relevant markets?

FHCs have a competitive advantage via their lower cost of capital to offer Complementary Commodities Activities services that are attractive to the market (e.g., carry trades, consignment stock, and intermediation) and their market experience and expertise at managing the risks associated with physical exposure and trading among various market participants. Restricting FHCs' ability to engage in Complementary Commodities Activities would burden global manufacturing with a sharp increase in costs and working capital requirements.

Potential board actions regarding merchant banking investments

Question 19. Should the Board's merchant banking rules regarding holding periods, routine management, or prudential requirements be more restrictive for investments in portfolio companies that pose significantly greater risks to the safety and soundness of the investing FHC or its subsidiary depository institution(s)? How could the Board evaluate the types and degrees of risks posed by individual portfolio companies or commercial industries?

No response.

Question 20. Do the Board's current routine management restrictions and risk management requirements sufficiently protect against a court piercing the corporate veil of a FHC's portfolio company? If not, what additional restrictions or requirements would better ensure against successful veil piercing actions?

No response.

Question 21. What are the advantages and disadvantages of the Board raising capital requirements on merchant banking investments or placing limits on the total amount of merchant banking investments made by a FHC? How should the Board formulate any such capital requirements or limits?

No response.

Question 22. What are the similarities and differences between the risks described above regarding merchant banking investments and the risks regarding investments made under section 4(k)(4)(I) of the BHC Act, which allows insurance companies to make controlling investments in nonfinancial companies (subject to certain restrictions)?

No response.

Section 4(o) grandfather authority

Question 23. What are the advantages and disadvantages of the Board instituting additional safety and soundness, capital, liquidity, reporting, or disclosure requirements for BHCs engaging in activities or investments under section 4(o) of the BHC Act? How should the Board formulate such requirements?

No response.

Question 24. Does section 4(o) of the BHC Act create competitive equity or other issues or authorize activities that cannot be conducted in a safe and sound manner by an FHC? If so, describe such issues or activities

No response.

The great LME debate: Nick Madden explores how the warehousing situation developed

Source: Aluminum International Today
March/April 2014 Issue

(This story ran in yesterday's Press Clips, but a portion of the article was missing.)

In the last two years there has been a debate raging about London Metal Exchange (LME) warehouses, queues and inflated metal premiums. Consumers have publicly criticized the LME and called for sweeping reforms. Some producers have attacked those claims and fought to maintain the status quo. Lawsuits have been filed. The Senate Banking Committee, the Department of Justice, the Commodity and Futures Trading Commission, the Financial Conduct Authority and the European Commission have all been talking about the LME. An article in July on the front page of a Sunday edition of the New York Times talked about investment banks shuffling metal between warehouses in order to prop up the price of aluminium.

What has been going on? I'll attempt to explain this issue from my own perspective.

How did the warehousing situation develop? The story begins in 2008 when the commodity boom ended abruptly and the financial crisis triggered a catastrophic drop in the aluminium price from $3,300 to $1,300/t in the span of seven months. At the same time, we saw a 20% decline in global consumption of aluminium. World consumption (excluding China) dropped by five million tonnes, but primary production only fell by two million.

In the past, when there was such a significant oversupply, cutbacks in primary production might normally be expected. But this did not happen. With ultra low interest rates and a wide contango, the opportunity emerged to stockpile aluminium and finance it, generating a handsome return through cash and carry. Some of these finance deals were in LME warehouses and others in non-LME locations.

Perhaps the most widely reported buildup was in Detroit. The metal was moving to Detroit because the LME-registered warehouse complex there had become the equivalent of a competitive buyer in the market. The warehouse company sought to lure aluminium onto their premises, gambling that the metal would remain in storage for a long time. They took a portion of the forecast rent that they would earn and offered this as an incentive to primary producers. As the stockpile grew and the queue developed, the warehouse company was able to increase the incentive offered because they knew that the metal would be there for some time.

How did they know? Because the LME had rules which required the warehouse to ship a minimum of 1500 tonnes per day, which increased to 3,000 tonnes per day on April 1, 2012. An analysis undertaken in January 2012 illustrates the captive rental income from metal stuck in the queue.

If Detroit had closed its doors to inputs on January 31, and shipped-out metal at the minimum loading rate until the warehouse was empty, it would have taken 2.5 years and the rent that would have been paid during that period by the owners of the stranded metal was estimated at $230 million. This took into account the rule change in April 2012, which doubled the minimum load out rate for warehouses with more than 900,000 tonnes of stocks. Certain warehouses treated the minimum obligation as a maximum requirement and were able to offer incentives to attract metal based on the projected rental income that they would earn.

What were the key problems?

#1: Inflated premiums: The ability of the warehouse to bid for metal by offering incentives was the direct driver of the increase in the Mid West Premium from 7c/lb to over 12 c/lb at the 2013 peak. And it quickly became obvious, especially to producers, that as long as the warehouse was bidding competitive

numbers with the rising premium, it provided an outlet for excess production, thus keeping the market balanced. The premium was only able to reach these unprecedented levels because a completely different business model than conventional supply and demand drove the offer from the warehouse. The warehouse offer was based upon rental income and the time the metal would stay in storage. This phenomenon was sustainable because metal stored in many other LME warehouses was locked in finance deals and the warrants were not in circulation. As a consequence in 2013, if a consumer wished to take metal out of the LME, he would be offered far-flung locations with no queue at warrant premiums, which reflected the already inflated market in that region. In Detroit, for instance, a consumer would join the back of the queue and pay rent, insurance and finance for 19 months while waiting for metal.

#2: Supply chain risk: One consumer tested the queue in September 2011. The company bought four lots in Detroit and waited five months until February 2012 for the metal to be delivered. In June 2013, the wait time had

grown to 19 months in both Detroit and Vlissingen. For a manufacturing business, it is impractical to have inventory tied-up for nineteen months. In addition to the working capital inefficiency, it also presents a serious problem for the supply chain, because although the aluminium is sitting in storage, it is inaccessible for this prolonged period. While most major aluminium consumers secure metal requirements on longer-term contracts, if a consumer wanted fast access to LME metal in response to a demand upswing, it was simply not accessible.

How high are the stakes?

One major consumer, MillerCoors in a US Senate banking hearing in July, talked about consumers over-paying for metal by $3 billion per year. This number was an estimate of the artificial inflation of approximately $120/t compared with normal premium levels, multiplied by non-Chinese annual production of about 25 million tonnes at the time. In reality, it was a conservative estimate. All metal outside China, including inventories in warehousing deals and scrap, was impacted by the higher premiums.

The premiums, such as the Mid West Premium and EU Duty Unpaid Premium are published in business journals such as Platts and Metal Bulletin. The prices are derived from surveys conducted by the publications on a daily basis to capture news of actual transactions taking place in the market. It can be a handful of transactions, which actually set the market price. These published prices are referenced in most supply contracts

between, producers, semi-fabricators and consumers. As a consequence, a very small volume of transactions sets the price for almost every contract in the region. This explains how the LME queue problem, and the consequent inflated premiums, can affect all metal flows in a region and ultimately in the world, leading to claims that consumers are paying $3 billion too much for aluminium.

Who benefits?

Some believed that this windfall was going to the warehousing companies. This was not the case. They have a different business model, which benefits from rent earned on the metal in their warehouse. In fact, the extra premiums go to primary producers. And if you want to know how much of the estimated $3 billion goes to each producer, just multiply their primary production by $120/t and it will give you an idea. For example for a non-Chinese producer of $4 million tonnes, the windfall could be expected to be around $480 million per year.

What's the solution?

A group of semi-fabricators and consumers in beverage packaging, flexible packaging, automotive and aerospace sectors lobbied the LME and market regulators under the umbrella of the Aluminum User Group (AUG), formed in 2012. The AUG wanted the LME to overhaul the warehousing system and eliminate the queues quickly.

In July 2013, the LME responded to widespread criticism and published proposals to reform the warehouses and address the queue problem at locations with a queue of longer than 100 days. Their proposal sought to increase the minimum load-out rate of warehouses with long queues and introduced a mechanism to link the load-in and load-out rates to bring more equity between a warehouse's ability to absorb metal and to release it. The LME gave market participants three months to consider their proposals and provide feedback and ideas.

The AUG responded with a series of recommendations. At the heart of the AUG's feedback lay a simple concept. There should be no queue. When a buyer of any futures contract takes delivery and requests access to the asset, it should be immediately available. The AUG proposed that once a warrant is cancelled, the warehouse should not be able to charge rent after 30 days following cancellation. This would have a dual benefit of discouraging the warehouse from allowing a queue to develop through eliminating the rent, which it would earn, and would remove the driver of the incentive payment that drove up the premiums in the first instance.

The LME received feedback from over 40 market participants and finally released a reform package on November 7, 2013. Amongst the reforms, the new load out requirements would apply to warehouses with queues greater than 50 days, a reduction of 50 days from the initial proposals. Further, a new Physical Market Committee would be formed, a full warehouse logistics review would be held and delayed data on commitments of traders would be published. Through these changes, the LME sought to address the problem of the queues, market transparency and market representation. The new load-out arrangements become effective April 1, 2014.

How has the market reacted to the rule changes?

There is a reasonable consensus among consumers that the LME's changes seeking more equilibrium between a warehouse's ability to intake metal and the obligation to release metal make sense. But consumers do not believe that this should only apply to a warehouse with a queue of 50 days or more. Consumers believe that there should not be any queue. However, it is a step forward.

Initially, premiums remained stable. Some had expected a freefall in premiums but over time the market recognized that it would take a long time for the rule changes to have an effect and there was little immediate reaction.

However, since the start of the New Year, the Mid West premium has nearly doubled – moving from the 2013 peak of around 12 cents/lb to 21cents/lb early in 2014. On this occasion, the LME warehouse queues play only a small part. Some market players have accused the LME of "getting it wrong," implying that their rule changes have caused the spike in premiums. Of course, they have not. Since the announcement, we have seen an unprecedented cancelling of warrants as metal seeks to leave the warehouses, either to return to circulation in the free market or to simply be re-directed to a non-LME warehouse under another financing arrangement.

The recent spike has more to do with a very short-term shortage of metal in North America. With millions of tonnes of primary aluminium believed to be stored in stealth stock in unreported locations, recent producer cutbacks, a tight scrap market and an uptick in demand, along with the delay in accessing metal in LME warehouses, the market is simply short of spot physical metal. It has the appearance of an engineered squeeze because, despite an abundance of metal in storage, it can't be accessed freely and premiums are at astronomical levels. However, the answer to this may be in these high premiums. With the Mid West Premium at $450/t, metal is already being drawn from stocks in Europe. At the same time, it is not possible for the warehouses to compete with the premium at this level and those who are holding metal in stock will look seriously at liquidating it and taking the profits from the sky-high premiums. It seems that the premium has become over extended and should normalize in the coming months. However, many believe that it will be a long time before we see the Mid West Premium return to previous norms of four to seven cents per pound.

How can these issues be fixed permanently?

The LME is in a difficult spot. As LME officials stated when announcing the proposal back in July 2013, they could already see potential issues developing in the future. For example, when the market is in backwardation, and companies wish to deliver metal to satisfy their obligations, warehouses may refuse to accept large quantities simply because they do not want to incur the consequent load out obligations in a future period. So it seems that the LME is trying to steer through a range of potential problems that any single solution might create.

Why is this?

There are players in the metal market who have an edge over regular physical users of the market. For example, certain banks may have LME brokerage, physical trading and warehousing operations and access to finance. Trading companies may not be LME brokers, but possess the other attributes and may offer OTC premium deals or fixed pricing on the back of their LME trades or physical books. The combination of multiple levers in the market gives them an edge over other users and it is this edge that creates a conundrum for the LME.

No matter what the LME does, such market participants may look for gaps, flaws and loopholes in any new proposal and combine their levers to generate value for themselves at the expense of other market participants. This is the real issue.

It became clear over the last two years that warehousing and, more broadly, commodities are outside the normal scope of the regulators. This is an enormous issue for consumers of commodities. This is why the LME has such difficulties in finding a silver bullet.

Because in this under-regulated market, the players with all the levers have too many opportunities to generate value for themselves.

So what is the solution?

Either increase the scope of regulation or prohibit the financial institutions from participating in unregulated markets

The New York Times

July 20, 2013

A Shuffle of Aluminum, but to Banks, Pure Gold

By DAVID KOCIENIEWSKI

MOUNT CLEMENS, Mich. — Hundreds of millions of times a day, thirsty Americans open a can of soda, beer or juice. And every time they do it, they pay a fraction of a penny more because of a shrewd maneuver by Goldman Sachs and other financial players that ultimately costs consumers billions of dollars.

The story of how this works begins in 27 industrial warehouses in the Detroit area where a Goldman subsidiary stores customers' aluminum. Each day, a fleet of trucks shuffles 1,500-pound bars of the metal among the warehouses. Two or three times a day, sometimes more, the drivers make the same circuits. They load in one warehouse. They unload in another. And then they do it again.

This industrial dance has been choreographed by Goldman to exploit pricing regulations set up by an overseas commodities exchange, an investigation by The New York Times has found. The back-and-forth lengthens the storage time. And that adds many millions a year to the coffers of Goldman, which owns the warehouses and charges rent to store the metal. It also increases prices paid by manufacturers and consumers across the country.

Tyler Clay, a forklift driver who worked at the Goldman warehouses until early this year, called the process "a merry-go-round of metal."

Only a tenth of a cent or so of an aluminum can's purchase price can be traced back to the strategy. But multiply that amount by the 90 billion aluminum cans consumed in the United States each year — and add the tons of aluminum used in things like cars, electronics and house siding — and the efforts by Goldman and other financial players has cost American consumers more than $5 billion over the last three years, say former industry executives, analysts and consultants.

The inflated aluminum pricing is just one way that Wall Street is flexing its fina
capitalizing on loosened federal regulations to sway a variety of commodities m
to financial records, regulatory documents and interviews with people involvec

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The maneuvering in markets for oil, wheat, cotton, coffee and more have brought billions in profits to investment banks like Goldman, JPMorgan Chase and Morgan Stanley, while forcing consumers to pay more every time they fill up a gas tank, flick on a light switch, open a beer or buy a cellphone. In the last year, federal authorities have accused three banks, including JPMorgan, of rigging electricity prices, and last week JPMorgan was trying to reach a settlement that could cost it $500 million.

Using special exemptions granted by the Federal Reserve Bank and relaxed regulations approved by Congress, the banks have bought huge swaths of infrastructure used to store commodities and deliver them to consumers — from pipelines and refineries in Oklahoma, Louisiana and Texas; to fleets of more than 100 double-hulled oil tankers at sea around the globe; to companies that control operations at major ports like Oakland, Calif., and Seattle.

In the case of aluminum, Goldman bought Metro International Trade Services, one of the country's biggest storers of the metal. More than a quarter of the supply of aluminum available on the market is kept in the company's Detroit-area warehouses.

Before Goldman bought Metro International three years ago, warehouse customers used to wait an average of six weeks for their purchases to be located, retrieved by forklift and delivered to factories. But now that Goldman owns the company, the wait has grown more than tenfold — to more than 16 months, according to industry records.

Longer waits might be written off as an aggravation, but they also make aluminum more expensive nearly everywhere in the country because of the arcane formula used to determine the cost of the metal on the spot market. The delays are so acute that Coca-Cola and many other manufacturers avoid buying aluminum stored here. Nonetheless, they still pay the higher price.

Goldman Sachs says it complies with all industry standards, which are set by the London Metal Exchange, and there is no suggestion that these activities violate any laws or regulations. Metro International, which declined to comment for this article, in the past has attributed the delays to logistical problems, including a shortage of trucks and forklift drivers, and the administrative complications of tracking so much metal. But interviews with several current and former Metro employees, as well as someone with direct knowledge of the company's business plan, suggest the longer waiting times are part of the company's strategy and help Goldman increase its profits from the warehouses.

Metro International holds nearly 1.5 million tons of aluminum in its Detroit facilities, but industry rules require that all that metal cannot simply sit in a warehouse forever. At least 3,000 tons of that metal must be moved out each day. But nearly all of the metal that Metro

moves is not delivered to customers, according to the interviews. Instead, it is shuttled from one warehouse to another.

Because Metro International charges rent each day for the stored metal, the long queues caused by shifting aluminum among its facilities means larger profits for Goldman. And because storage cost is a major component of the "premium" added to the price of all aluminum sold on the spot market, the delays mean higher prices for nearly everyone, even though most of the metal never passes through one of Goldman's warehouses.

Aluminum industry analysts say that the lengthy delays at Metro International since Goldman took over are a major reason the premium on all aluminum sold in the spot market has doubled since 2010. The result is an additional cost of about $2 for the 35 pounds of aluminum used to manufacture 1,000 beverage cans, investment analysts say, and about $12 for the 200 pounds of aluminum in the average American-made car.

"It's a totally artificial cost," said one of them, Jorge Vazquez, managing director at Harbor Aluminum Intelligence, a commodities consulting firm. "It's a drag on the economy. Everyone pays for it."

Metro officials have said they are simply reacting to market forces, and on the company Web site describe their role as "bringing together metal producers, traders and end users," and helping the exchange "create and maintain stability."

But the London Metal Exchange, which oversees 719 warehouses around the globe, has not always been an impartial arbiter — it receives 1 percent of the rent collected by its warehouses worldwide. Until last year, it was owned by members, including Goldman, Barclays and Citigroup. Many of its regulations were drawn up by the exchange's warehouse committee, which is made up of executives of various banks, trading companies and storage companies — including the president of Goldman's Metro International — as well as representatives of powerful trading firms in Europe. The exchange was sold last year to a group of Hong Kong investors and this month it proposed regulations that would take effect in April 2014 intended to reduce the bottlenecks at Metro.

All of this could come to an end if the Federal Reserve Board declines to extend the exemptions that allowed Goldman and Morgan Stanley to make major investments in nonfinancial businesses — although there are indications in Washington that the Fed will let the arrangement stand. Wall Street banks, meanwhile, have focused their attention on another commodity. After a sustained lobbying effort, the Securities and Exchange Commission late last year approved a plan that will allow JPMorgan Chase, Goldman and BlackRock to buy up to 80 percent of the copper available on the market.

In filings with the S.E.C., Goldman has said it plans by early next year to store copper in the same Detroit-area warehouses where it now stockpiles aluminum. On Saturday, however, Michael DuVally, a Goldman spokesman, said the company had decided not to participate in the copper venture, though it had not disclosed that publicly. He declined to elaborate.

Banks as Traders

For much of the last century, Congress tried to keep a wall between banking and commerce. Banks were forbidden from owning nonfinancial businesses (and vice versa) to minimize the risks they take and, ultimately, to protect depositors. Congress strengthened those regulations in the 1950s, but by the 1980s, a wave of deregulation began to build and banks have in some cases been transformed into merchants, according to Saule T. Omarova, a law professor at the University of North Carolina and expert in regulation of financial institutions. Goldman and other firms won regulatory approval to buy companies that traded in oil and other commodities. Other restrictions were weakened or eliminated during the 1990s, when some banks were allowed to expand into storing and transporting commodities.

Over the past decade, a handful of bank holding companies have sought and received approval from the Federal Reserve to buy physical commodity trading assets.

According to public documents in an application filed by JPMorgan Chase, the Fed said such arrangements would be approved only if they posed no risk to the banking system and could "reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interests, or unsound banking practices."

By controlling warehouses, pipelines and ports, banks gain valuable market intelligence, investment analysts say. That, in turn, can give them an edge when trading commodities. In the stock market, such an arrangement might be seen as a conflict of interest — or even insider trading. But in the commodities market, it is perfectly legal.

"Information is worth money in the trading world and in commodities, the only way you get it is by being in the physical market," said Jason Schenker, president and chief economist at Prestige Economics in Austin, Tex. "So financial institutions that engage in commodities trading have a huge advantage because their ownership of physical assets gives them insight in physical flows of commodities."

Some investors and analysts say that the banks have helped consumers by spurring investment and making markets more efficient. But even banks have, at times, acknowledged that Wall

Street's activities in the commodities market during the last decade have contributed to some price increases.

In 2011, for instance, an internal Goldman memo suggested that speculation by investors accounted for about a third of the price of a barrel of oil. A commissioner at the Commodity Futures Trading Commission, the federal regulator, subsequently used that estimate to calculate that speculation added about $10 per fill-up for the average American driver. Other experts have put the total, combined cost at $200 billion a year.

High Premiums

The entrance to one of Metro International's main aluminum warehouses here in suburban Detroit is unmarked except for one toppling sign that displays two words: Mount Clemens, the town's name.

Most days, there are just a handful of cars in the parking lot during the day shift, and by 5 p.m., both the parking lot and guard station often appear empty, neighbors say. Yet inside the two cavernous blue warehouses are rows and rows of huge metal bars, weighing more than half a ton each, stacked 15 feet high.

After Goldman bought the company in 2010, Metro International began to attract a stockpile. It actually began paying a hefty incentive to traders who stored their aluminum in the warehouses. As the hoard of aluminum grew — from 50,000 tons in 2008 to 850,000 in 2010 to nearly 1.5 million currently — so did the wait times to retrieve metal and the premium added to the base price. By the summer of 2011, the price spikes prompted Coca-Cola to complain to the industry overseer, the London Metal Exchange, that Metro's delays were to blame.

Martin Abbott, the head of the exchange, said at the time that he did not believe that the warehouse delays were causing the problem. But the group tried to quiet the furor by imposing new regulations that doubled the amount of metal that the warehouses are required to ship each day — from 1,500 tons to 3,000 tons. But few metal traders or manufacturers believed that the move would settle the issue.

"The move is too little and too late to have a material effect in the near-term on an already very tight physical market, particularly in the U.S.," Morgan Stanley analysts said in a note to investors that summer.

Still, the wait times at Metro have grown, causing the premium to rise further. Current and former employees at Metro say those delays are by design.

Industry analysts and company insiders say that the vast majority of the aluminum being

moved around Metro's warehouses is owned not by manufacturers or wholesalers, but by banks, hedge funds and traders. They buy caches of aluminum in financing deals. Once those deals end and their metal makes it through the queue, the owners can choose to renew them, a process known as rewarranting.

To encourage aluminum speculators to renew their leases, Metro offers some clients incentives of up to $230 a ton, and usually moves their metal from one warehouse to another, according to industry analysts and current and former company employees.

To metal owners, the incentives mean cash upfront and the chance to make more profit if the premiums increase. To Metro, it keeps the delays long, allowing the company to continue charging a daily rent of 48 cents a ton. Goldman bought the company for $550 million in 2010 and at current rates could collect about a quarter-billion dollars a year in rent.

Metro officials declined to discuss specifics about its lease renewals or incentive policies.

But metal analysts, like Mr. Vazquez at Harbor Aluminum Intelligence, estimate that 90 percent or more of the metal moved at Metro each day goes to another warehouse to play the same game. That figure was confirmed by current and former employees familiar with Metro's books, who spoke on condition of anonymity because of company policy.

Goldman Sachs declined to discuss details of its operations. Mr. DuVally, the Goldman spokesman, pointed out that the London Metal Exchange prohibits warehouse companies from owning metal, so all of the aluminum being loaded and unloaded by Metro was being stored and shipped for other owners.

"In fact," he said, "L.M.E. warehouses are actually prohibited from trading all L.M.E. products."

As the delays have grown, many manufacturers have turned elsewhere to buy their aluminum, often buying it directly from mining or refining companies and bypassing the warehouses completely. Even then, though, the warehouse delays add to manufacturers' costs, because they increase the premium that is added to the price of all aluminum sold on the open market.

The Warehouse Dance

On the warehouse floor, the arrangement makes for a peculiar workday, employees say.

Despite the persistent backlogs, many Metro warehouses operate only one shift and usually sit idle 12 or more hours a day. In a town like Detroit, where factories routinely operate round the clock when necessary, warehouse workers say that low-key pace is uncommon.

When they do work, forklift drivers say, there is much more urgency moving aluminum into, and among, the warehouses than shipping it out. Mr. Clay, the forklift driver, who worked at the Mount Clemens warehouse until February, said that while aluminum was delivered in huge loads by rail car, it left in a relative trickle by truck.

"They'd keep loading up the warehouses and every now and then, when one was totally full they'd shut it down and send the drivers over here to try and fill another one up," said Mr. Clay, 23.

Because much of the aluminum is simply moved from one Metro facility to another, warehouse workers said they routinely saw the same truck drivers making three or more round trips each day. Anthony Stuart, a forklift team leader at the Mount Clemens warehouse until 2012, said he and his nephew — who worked at a Metro warehouse about six miles away in Chesterfield Township — occasionally asked drivers to pass messages back and forth between them.

"Sometimes I'd talk to my nephew on the weekend, and we'd joke about it," Mr. Stuart said. "I'd ask him 'Did you get all that metal we sent you?' And he'd tell; me 'Yep. Did you get all that stuff we sent you?' "

Mr. Stuart said he also scoffed at Metro's contention that a major cause for the monthslong delays is the difficulty in locating each customer's store of metal and moving the other huge bars of aluminum to get at it. When he arrived at work each day, Mr. Stuart's job was to locate and retrieve specific batches of aluminum from the vast stores in the warehouse and set them out to be loaded onto trucks.

"It's all in rows," he said. "You can find and get anything in a day if you want. And if you're in a hurry, a couple of hours at the very most."

When the London Metal Exchange was sold to a Hong Kong company for $2.2 billion last year, its chief executive promised to take "a bazooka" to the problem of long wait times.

But the new owner of the exchange has balked at adopting a remedy raised by a consultant hired to study the problem in 2010: limit the rent warehouses can collect during the backlogs. The exchange receives 1 percent of the rent collected by the warehouses, so such a step would cost it millions in revenue.

Other aluminum users have pressed the exchange to prohibit warehouses from providing incentives to those that are simply stockpiling the metal, but the exchange has not done so.

Last month, however, after complaints by a consortium of beer brewers, the exchange proposed new rules that would require warehouses to ship more metal than they take in. But

some financial firms have raised objections to those new regulations, which they contend may hurt traders and aluminum producers. The exchange board will vote on the proposal in October and, if approved, it would not take effect until April 2014.

Nick Madden, chief procurement officer for one of the nation's largest aluminum purchasers, Novelis, said the situation illustrated the perils of allowing industries to regulate themselves. Mr. Madden said that the exchange had for years tolerated delays and high premiums, so its new proposals, while encouraging, were still a long way from solving the problem. "We're relieved that the L.M.E. is finally taking an action that ultimately will help the market and normalize," he said. "However, we're going to take another year of inflated premiums and supply chain risk."

In the meantime, the Federal Reserve, which regulates Goldman Sachs, Morgan Stanley and other banks, is reviewing the exemptions that have let banks make major investments in commodities. Some of those exemptions are set to expire, but the Fed appears to have no plans to require the banks to sell their storage facilities and other commodity infrastructure assets, according to people briefed on the issue.

A Fed spokeswoman, Barbara Hagenbaugh, provided the following statement: "The Federal Reserve regularly monitors the commodity activities of supervised firms and is reviewing the 2003 determination that certain commodity activities are complementary to financial activities and thus permissible for bank holding companies."

Senator Sherrod Brown, who is sponsoring Congressional hearings on Tuesday on Wall Street's ownership of warehouses, pipelines and other commodity-related assets, says he hopes the Fed reins in the banks.

"Banks should be banks, not oil companies," said Mr. Brown, Democrat of Ohio. "They should make loans, not manipulate the markets to drive up prices for manufacturers and expose our entire financial system to undue risk."

Next Up: Copper

As Goldman has benefited from its wildly lucrative foray into the aluminum market, JPMorgan has been moving ahead with plans to establish its own profit center involving an even more crucial metal: copper, an industrial commodity that is so widely used in homes, electronics, cars and other products that many economists track it as a barometer for the global economy.

In 2010, JPMorgan quietly embarked on a huge buying spree in the copper market. Within weeks — by the time it had been identified as the mystery buyer — the bank had amassed $1.5

billion in copper, more than half of the available amount held in all of the warehouses on the exchange. Copper prices spiked in response.

At the same time, JPMorgan, which also controls metal warehouses, began seeking approval of a plan that would ultimately allow it, Goldman Sachs and BlackRock, a large money management firm, to buy 80 percent of the copper available on the market on behalf of investors and hold it in warehouses. The firms have told regulators that these stockpiles, which would be used to back new copper exchange-traded funds, would not affect copper prices. But manufacturers and copper wholesalers warned that the arrangement would squeeze the market and send prices soaring. They asked the S.E.C. to reject the proposal.

After an intensive lobbying campaign by the banks, Mary L. Schapiro, the S.E.C.'s chairwoman, approved the new copper funds last December, during her final days in office. S.E.C. officials said they believed the funds would track the price of copper, not propel it, and concurred with the firms' contention — disputed by some economists — that reducing the amount of copper on the market would not drive up prices.

Others now fear that Wall Street banks will repeat or revise the tactics that have run up prices in the aluminum market. Such an outcome, they caution, would ripple through the economy. Consumers would end up paying more for goods as varied as home plumbing equipment, autos, cellphones and flat-screen televisions.

Robert Bernstein, a lawyer at Eaton & Van Winkle, who represents companies that use copper, said that his clients were fearful of "an investor-financed squeeze" of the copper market. "We think the S.E.C. missed the evidence," he said.

Gretchen Morgenson contributed reporting from New York. Alain Delaquérière contributed research from New York.

This article has been revised to reflect the following correction:

Correction: July 20, 2013

An earlier version of this article misstated one of the financial institutions that received approval to buy up to 80 percent of the copper available on the market. It is BlackRock, not the Blackstone Group.

This article has been revised to reflect the following correction:

Correction: July 28, 2013

An article last Sunday about big banks' exploitation of commodities pricing regulations to increase storage fees for aluminum held in bank-owned warehouses misstated the increase in customer waiting time for purchases to be retrieved from a warehouse purchased three years ago by Goldman Sachs. The wait has increased about tenfold, to 16 months from six weeks — not twentyfold.

Rolling Stone

The Vampire Squid Strikes Again: The Mega Banks' Most Devious Scam Yet

Banks are no longer just financing heavy industry. They are actually buying it up and inventing bigger, bolder and scarier scams than ever

by MATT TAIBBI

FEBRUARY 12, 2014

Call it the loophole that destroyed the world. It's 1999, the tail end of the Clinton years. While the rest of America obsesses over Monica Lewinsky, Columbine and Mark McGwire's biceps, Congress is feverishly crafting what could yet prove to be one of the most transformative laws in the history of our economy – a law that would make possible a broader concentration of financial and industrial power than we've seen in more than a century.

Matt Taibbi on the Great American Bubble Machine

But the crazy thing is, nobody at the time quite knew it. Most observers on the Hill thought the Financial Services Modernization Act of 1999 – also known as the Gramm-Leach-Bliley Act – was just the latest and boldest in a long line of deregulatory handouts to Wall Street that had begun in the Reagan years.

Wall Street had spent much of that era arguing that America's banks needed to become bigger and badder, in order to compete globally with the German and Japanese-style financial giants, which were supposedly about to swallow up all the world's banking business. So through legislative lackeys like red-faced Republican deregulatory enthusiast Phil Gramm, bank lobbyists were pushing a new law designed to wipe out 60-plus years of bedrock financial regulation. The key was repealing – or "modifying," as bill proponents put it – the famed Glass-Steagall Act separating bankers and brokers, which had been passed in 1933 to prevent conflicts of interest within the finance sector that had led to the Great Depression. Now, commercial banks would be allowed to merge with investment banks and insurance companies, creating financial megafirms potentially far more powerful than had ever existed in America.

All of this was big enough news in itself. But it would take half a generation – till now, basically – to understand the most explosive part of the bill, which additionally legalized new forms of monopoly, allowing banks to merge with heavy industry. A tiny provision in the bill also permitted commercial banks to delve into any activity that is "complementary to a financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally."

Complementary to a financial activity. What the hell did that mean?

The Feds vs. Goldman

"From the perspective of the banks," says Saule Omarova, a law professor at the University of North Carolina, "pretty much everything is considered complementary to a financial activity."

Fifteen years later, in fact, it now looks like Wall Street and its lawyers took the term to be a synonym for ruthless campaigns of world domination. "Nobody knew the reach it would have into the real economy," says Ohio Sen. Sherrod Brown. Now a leading voice on the Hill against the hidden provisions, Brown actually voted for Gramm-Leach-Bliley as a congressman, along with all but 72 other House members. "I bet even some of the people who were the bill's advocates had no idea."

Today, banks like Morgan Stanley, JPMorgan Chase and Goldman Sachs own oil tankers, run airports and control huge quantities of coal, natural gas, heating oil, electric power and precious metals. They likewise can now be found exerting direct control over the supply of a whole galaxy of raw materials crucial to world industry and to society in general, including everything from food products to metals like zinc, copper, tin, nickel and, most infamously thanks to a recent high-profile scandal, aluminum. And they're doing it not just here but abroad as well: In Denmark, thousands took to the streets in protest in recent weeks, vampire-squid banners in hand, when news came out that Goldman Sachs was about to buy a 19 percent stake in Dong Energy, a national electric provider. The furor inspired mass resignations of ministers from the government's ruling coalition, as the Danish public wondered how an American investment bank could possibly hold so much influence over the state energy grid.

There are more eclectic interests, too. After 9/11, we found it worrisome when foreigners started to get into the business of running ports, but there's been little controversy as banks have done the same, or even started dabbling in other activities with national-security implications – Goldman Sachs, for instance, is apparently now in the uranium business, a piece of news that attracted few headlines.

Wall Street's War

But banks aren't just buying stuff, they're buying whole industrial processes. They're buying oil that's still in the ground, the tankers that move it across the sea, the refineries that turn it into fuel, and the pipelines that bring it to your home. Then, just for kicks, they're also betting on the timing and efficiency of these same industrial processes in the financial markets – buying and selling oil stocks on the stock exchange, oil futures on the futures market, swaps on the swaps market, etc.

Allowing one company to control the supply of crucial physical commodities, and also trade in the financial products that might be related to those markets, is an open invitation to commit mass manipulation. It's something akin to letting casino owners who take book on NFL games during the week also coach all the teams on Sundays.

The situation has opened a Pandora's box of horrifying new corruption possibilities, but it's been hard for the public to notice, since regulators have struggled to put even the slightest dent in Wall Street's older, more familiar scams. In just the past few years we've seen an explosion of scandals – from the multitrillion-dollar Libor saga (major international banks gaming world interest rates), to the more recent foreign-currency-exchange fiasco (many of the same banks suspected of rigging prices in the $5.3-trillion-a-day currency

markets), to lesser scandals involving manipulation of interest-rate swaps, and gold and silver prices.

But those are purely financial schemes. In these new, even scarier kinds of manipulations, banks that own whole chains of physical business interests have been caught rigging prices in those industries. For instance, in just the past two years, fines in excess of $400 million have been levied against both JPMorgan Chase and Barclays for allegedly manipulating the delivery of electricity in several states, including California. In the case of Barclays, which is contesting the fine, regulators claim prices were manipulated to help the bank win financial bets it had made on those same energy markets.

And last summer, *The New York Times* described how Goldman Sachs was caught systematically delaying the delivery of metals out of a network of warehouses it owned in order to jack up rents and artificially boost prices.

You might not have been surprised that Goldman got caught scamming the world again, but it was certainly news to a lot of people that an investment bank with no industrial expertise, just five years removed from a federal bailout, stores and controls enough of America's aluminum supply to affect world prices.

How was all of this possible? And who signed off on it?

By exploiting loopholes in a dense, decade-and-a-half-old piece of financial legislation, Wall Street has effected a revolutionary change that American citizens never discussed, debated or prepared for, and certainly never explicitly permitted in any meaningful way: the wholesale merger of high finance with heavy industry. This blitzkrieg reorganization of our economy has left millions of Americans facing a smorgasbord of frightfully unexpected new problems. Do we even have a regulatory structure in place to look out for these new forms of manipulation? (Answer: We don't.) And given that the banking sector that came so close to ruining the world economy five years ago has now vastly expanded its footprint, who's in charge of preventing the next crash?

In this Brave New World, nobody knows. Moreover, whatever we've done, it's too late to have a referendum on it. Garrett Wotkyns, an Arizona-based class-action attorney who has spent more than a year investigating the banks' involvement in the metals markets and is suing Goldman and others over the aluminum case on behalf of two major manufacturers, puts it this way: "It's like that line in *The Dark Knight Rises*," he says. "'The storm isn't coming. The storm is already here.'"

To this day, the provenance of the "complementary activities" loophole that set much of this mess in motion remains something of a mystery. We know from congressional records that a vice chairman of JPMorgan, Michael Patterson, was one of the first to push the idea in House testimony in February 1999 and that, later that year, an early version of the bill put forward in the Senate by Phil Gramm also contained the provision.

But even one of the final bill's eventual authors, Republican congressman Jim Leach, can't remember exactly whose idea adding the "complementary activities" line was. "I know of no legislative history of the provision," he says. "It probably came from the Senate side."

Moreover, Leach was shocked to hear that regulators had pointed to this section of a bill bearing his name as the legal authority allowing banks to gain control over physical-commodities markets. "That's news to me," says the mortified ex-congressman, now a law professor at the University of Iowa. "I assume no one at the

time would have thought it would apply to commodities brokering of a nature that has recently been reported."

One thing that is clear in the public record is that nobody was talking, at least publicly, about banks someday owning oil tankers or controlling the supply of industrial metals.

The JPMorgan witness, Michael Patterson, told the House Financial Services Committee at the 1999 hearing that his idea of "complementary activities" was, say, a credit-card company putting out a restaurant guide. "One example is American Express, which publishes magazines," he testified. "*Travel + Leisure* magazine is complementary to the travel business. *Food & Wine* promotes dining out . . . which might lead to greater use of the American Express card."

"That's how insignificant this was supposed to be," says Omarova. "They were talking about being allowed to put out magazines."

Even apart from the "complementary" provision, Gramm quietly added another time bomb to the law, a grandfather clause, which said that any company that became a bank holding company after the passage of Gramm-Leach-Bliley in 1999 could engage in (or control shares of a company engaged in) commodities trading – but only if it was already doing so before a seemingly arbitrary date in September 1997.

This meant that if you were a bank holding company at the time the law was passed and you wanted to get into the commodities business, you were out of luck, because the federal law prohibited banks from being involved in physical commodities or any other forms of heavy industry. But if you were already a commodities dealer in 1997 and then somehow became a bank holding company, you could get into whatever you pleased.

This was nuts. It was a little like passing a law that ordered you to leave the Army if you were gay in November 1999 – but if you were a heterosexual soldier as of September 1997 and then somehow became gay after 1999, you could stay in the Army.

To this day, nobody is exactly clear on what the grandfather clause means. If a company traded in tin before 1997 and then became a bank holding company in 2015, would it have to stick with tin? Or did the fact that it traded tin in 1997 mean the company could buy oil tankers and pipelines in 2020?

In 2012, the Federal Reserve Bank of New York – the most powerful branch of the Fed, the primary regulator of bank holding companies and the final authority on these things – put out a paper saying it had no clue about the exact meaning of the provision. "The legal scope of the exemption," a trio of New York Fed officials wrote in July that year, "is widely seen as ambiguous." Just a few weeks ago, the Fed's director of banking supervision, Michael Gibson, told the Senate, "I'm not a lawyer," and that it's "under review."

It almost didn't matter. For nearly a decade, this obscure provision of Gramm-Leach-Bliley effectively applied to nobody. Then, in the third week of September 2008, while the economy was imploding after the collapses of Lehman and AIG, two of America's biggest investment banks, Goldman Sachs and Morgan Stanley, found themselves in desperate need of emergency financing. So late on a Sunday night, on September 21st, to be exact, the two banks announced they had applied to the Federal Reserve to become bank holding companies, which would give them lifesaving access to emergency cash from the Fed's discount window.

The Fed granted the requests overnight. The move saved the bacon of both firms, and it had one additional benefit: It made Goldman and Morgan Stanley, which both had significant commodity-trading operations prior to 1997, the first and last two companies to qualify for the grandfather exemption of the Gramm-Leach-Bliley Act. "Kind of convenient, isn't it?" says one congressional aide. "It's almost like the law was written specifically for them."

The irony was incredible. After fucking up so badly that the government had to give them federal bank charters and bottomless wells of free cash to save their necks, the feds gave Goldman Sachs and Morgan Stanley hall passes to become cross-species monopolistic powers with almost limitless reach into any sectors of the economy.

And they weren't the only accidental beneficiaries of the crisis. JPMorgan Chase acquired the commodity-trading operations of Bear Stearns in early 2008, after the Fed pledged billions in guarantees to help Chase rescue the doomed investment bank. Within the next two years, Chase also acquired the commodities operations of another failing bank, the newly nationalized Royal Bank of Scotland, which included Henry Bath, a U.K.-based company that owns a large network of warehouses throughout Europe.

As a result, entering 2010, these three companies were newly empowered to go out and start doubling down on investments in physical industry. Through a fortuitous circumstance, the cost of financing for bank holding companies had also dropped like a stone by the end of 2009, as the Fed slashed interest rates almost to zero in a desperate attempt to stimulate the economy out of its post-crash doldrums.

The sudden turning on of this huge faucet of free money seems to have been a factor in an ensuing commodities shopping spree undertaken by all three firms. Morgan Stanley, for instance, claimed to have just $2.5 billion in commodity assets in March 2009. By September 2011, those holdings had nearly quadrupled, to $10.3 billion.

Goldman and Chase – along with Glencore and Trafigura, a pair of giant Swiss-based conglomerates that were offshoots of a firm founded by notorious deceased commodities trader and known market manipulator Marc Rich – all made notably coincidental purchases of metals-warehousing companies in 2010.

The presence of these Marc Rich entities is particularly noteworthy. According to famed *Forbes* reporter Paul Klebnikov, who was assassinated in 2004 after years of reports on Russian corruption, Rich made a fortune in the early Nineties striking crooked deals with the Soviet bosses who controlled the U.S.S.R.'s supplies of raw materials – in particular commodities like zinc and aluminum. These deals helped create a fledgling class of profiteers among the bosses of the crumbling Soviet empire, a class that would go on years later to help push Russia out of its communist past into its kleptocratic present.

"He'd strike a deal with the local party boss, or the director of a state-owned company," Klebnikov said back in 2001. "He'd say, 'OK, you will sell me the [commodity] at five to 10 percent of the world-market price . . . and in return, I will deposit some of the profit I make by reselling it 10 times higher on the world market, and put the kickback in a Swiss bank account.'"

Rich made these reported deals while in exile from the United States, which he fled in 1983 after the U.S. government charged him with tax evasion, wire fraud, racketeering and trading with the enemy after being caught trading with rogue states like Iran, among other things. The state filed enough counts to put him away for life, and he remained a fugitive until January 2001, when a little-known Clinton administration Justice

Department official named Eric Holder recommended Rich be pardoned. A report by the House Committee on Government Reform later concluded that Holder had not provided a credible explanation for supporting Rich's pardon and that he must have had "other motivations" that he didn't share with Congress. Among other things, the committee speculated that Holder had designs on the attorney general's office in a potential Al Gore administration.

In any case, in 2010, a decade after the Rich pardon, Holder was attorney general, but under Barack Obama, and two Rich-created firms, along with two banks that have been major donors to the Democratic Party, all made moves to buy up metals warehouses. In near simultaneous fashion, Goldman, Chase, Glencore and Trafigura bought companies that control warehouses all over the world for the LME, or London Metals Exchange. The LME is a privately owned exchange for world metals trading. It's the world's primary hub for determining metals prices and also for trading metals-based futures, options, swaps and other instruments.

"If they were just interested in collecting rent for metals storage, they'd have bought all kinds of warehouses," says Manal Mehta, the founder of Sunesis Capital, a hedge fund that has done extensive research on the banks' forays into the commodities markets. "But they seemed to focus on these official LME facilities."

The JPMorgan deal seemed to be in direct violation of an order sent to the bank by the Fed in 2005, which declared the bank was not authorized to "own, operate, or invest in facilities for the extraction, transportation, storage, or distribution of commodities." The way the Fed later explained this to the Senate was that the purchase of Henry Bath was OK because it considered the acquisition of this commodities company kosher within the context of a larger sale that the Fed was cool with – "If the bulk of the acquisition is a permissible activity, they're allowed to include a small amount of impermissible activities."

What's more, according to LME regulations, no warehouse company can also own metal or make trades on the exchange. While they may have been following the letter of the law, they were certainly violating the spirit: Goldman preposterously seems to have engaged in all three activities simultaneously, changing a hat every time it wanted to switch roles. It conducted its metal trades through its commodities subsidiary J. Aron, and then put Metro, its warehouse company, in charge of the storage, and according to industry experts, Goldman most likely owned some metal, though the company has remained vague on the subject.

If you're wondering why the LME would permit a seemingly blatant violation of its own rules, a good place to start would be to look at who owned the LME at the time. Although it eventually sold itself to a Hong Kong company in 2012, in 2010 the LME was owned by a consortium of banks and financial companies. The two largest shareholders? Goldman and JPMorgan Chase.

Humorously, another was Koch Metals (2.32 percent), a commodities concern that's part of the Koch brothers' empire. The Kochs have been caught up in their own commodity-manipulation schemes, including an episode in 2008, in which they rented out huge tankers and used them to store excess oil offshore essentially as floating warehouses, taking cheap oil out of available supply and thereby helping to drive up energy prices. Additionally, some banks have been accused of similar oil-hoarding schemes.

The motive for the Kochs, or anyone else, to hoard a commodity like oil can be almost beautiful in its simplicity. Basically, a bank or a trading company wants to buy commodities cheap in the present and sell them for a premium as futures. This trade, sometimes called "arbitraging the contango," works best if the cost of storing your oil or metals or whatever you're dealing with is negligible – you make more money off the

futures trade if you don't have to pay rent while you wait to deliver.

So when financial firms suddenly start buying oil tankers or warehouses, they could be doing so to make bets pay off, as part of a speculative strategy – which is why the banks' sudden acquisitions of metals-storage companies in 2010 is so noteworthy.

These were not minor projects. The firms put high-ranking executives in charge of these operations. Goldman's acquisition of Metro was the project of Isabelle Ealet, the bank's then-global commodities chief. (In a curious coincidence commented upon by several sources for this story, many of Goldman's most senior officials, including CEO Lloyd Blankfein and president Gary Cohn, started their careers in Goldman's commodities division.)

Meanwhile, Chase's own head of commodities operations, Blythe Masters – an even more famed Wall Street figure, sometimes described as the inventor of the credit default swap – admitted that her company's warehouse interests weren't just a casual thing. "Just being able to trade financial commodities is a serious limitation because financial commodities represent only a tiny fraction of the reality of the real commodity exposure picture," she said in 2010.

Loosely translated, Masters was saying that there was a limited amount of money to be made simply trading commodities in the traditional legal manner. The solution? "We need to be active in the underlying physical commodity markets," she said, "in order to understand and make prices."

We need to make prices. The head of Chase's commodities division actually said this, out loud, and it speaks to both the general unlikelihood of God's existence and the consistently low level of competence of America's regulators that she was not immediately zapped between the eyebrows with a thunderbolt upon doing so. Instead, the government sat by and watched as a curious phenomenon developed at all of these new bank-owned warehouses, in the aluminum markets in particular.

As detailed by *New York Times* reporter David Kocieniewski last July, Goldman had bought into these warehouses and soon began pointlessly shuttling stocks of aluminum from one warehouse to another. It was a "merry-go-round of metal," as one former forklift operator called it, a scheme of delays apparently designed to drive up prices of the metal used to make the stuff we all buy – like beer cans, flashlights and car parts.

When Goldman bought Metro in February 2010, the average delivery time for an aluminum order was six weeks. Under Goldman ownership, Metro's delivery times soon ballooned by a factor of 10, to an average of 16 months, leading in part to the explosive growth of a surcharge called the Midwest premium, which represented not the cost of aluminum itself but the cost of its storage and delivery, a thing easily manipulated when you control the supply. So despite the fact that the overall LME price of aluminum fell during this time, the Midwest premium conspicuously surged in the other direction. In 2008, it represented about three percent of the LME price of aluminum. By 2013, it was a whopping 15 percent of the benchmark (it has since spiked to 25 percent).

"In layman's terms, they were artificially jacking up the shipping and handling costs," says Mehta.

The intentional warehouse delays were just one part of the anti-capitalist game the banks were playing. As an incentive to get metal under their control, they actually paid the industrial producers of aluminum extra cash to store the metal in their warehouses, fees reportedly as much as $230 a metric ton.

Both Goldman and Glencore reportedly offered such incentives, which not only allowed the companies to collect more rent (Goldman was charging a daily rate of 48 cents a metric ton) but also served to discourage industrial producers like Alcoa or the Russian industrial giant Rusal (which has Glencore CEO Ivan Glasenberg on its board of directors) from selling directly to manufacturers.

The result of all this was a bottlenecking of aluminum supplies. A crucial industrial material that was plentiful and even in oversupply was now stuck in the speculative merry-go-round of the bank finance trade.

Every time you bought a can of soda in 2011 and 2012, you paid a little tax thanks to firms like Goldman. Mehta, whose fund has a financial stake in the issue, insists there's an irony here that should infuriate everyone. "Banks used taxpayer-backed subsidies," he says, "to drive up prices for the very same taxpayers that bailed them out in the first place."

Dave Smith, Coca-Cola's strategic procurement manager, told reporters as early as the summer of 2011 that "the situation has been organized to artificially drive up premiums." Nick Madden, the chief procurement officer of Novelis, a leading can-maker, said at roughly the same time that the delays in Detroit were adding $20 to $40 a metric ton to the price of aluminum.

Coca-Cola was the first to file a complaint against Goldman over the warehouse issue, doing so in mid-2011, and many people in and around the industry weren't surprised that it was the world's biggest and most powerful corporate consumer of aluminum that came forward first. Other manufacturers, many believe, kept their mouths shut out of fear the banks would punish them. "It's very likely that commercial companies deliberately avoided an open confrontation with Goldman because it was a Wall Street powerhouse with which they had – or hoped to establish – important credit and financial-advisory relationships," says Omarova. One government official who has investigated the issue for Congress said even some of the country's largest aluminum users have been reluctant to come forward. "When some of these huge transnationals don't want to talk about it, it makes you wonder," the aide noted.

Still, a few days after the *Times* published its aluminum-storage exposé in late July 2013, Sen. Brown held hearings to investigate the causes of the alleged manipulation. (One executive, Tim Weiner of MillerCoors, would testify that global aluminum costs for manufacturers had been inflated by $3 billion in just the past year.) After those hearings, and after word leaked out that regulatory agencies had launched investigations, Goldman curtly announced new plans to reduce the delivery times of its aluminum stocks. The bank has consistently maintained that its interest in the warehouse company Metro is not "strategic," that it only bought the firm "as an investment," and will sell it within 10 years. JPMorgan Chase and other banks announced that it might be getting out of the physical commodities business altogether. The LME, meanwhile, had already come up with plans to force its member warehouses to increase their output of aluminum.

A few weeks later, on August 9th, 2013, a company called CME Group – one of the world's leading derivatives dealers – announced that it would henceforth be selling a new kind of aluminum swap futures contract. The new instrument, the firm said, would be "the first Exchange product that enables the aluminum Midwest premium to be managed."

What this signaled was that before that moment, no one in the financial sector wanted to get within a hundred miles of selling price insurance against the Midwest premium, because it was so obviously corrupt. But then the *Times* let the cat out of the bag, and next thing you knew, now that everyone was watching, a major derivatives purveyor suddenly felt confident enough to sell a hedging insurance against the Midwest premium,

given that it was now presumed, once again, to be free from manipulation and subject to market forces.

"That should tell you a lot about how completely people in the business understood that the metals market was broken," says Wotkyns.

One other bizarre footnote to the aluminum scandal: According to the Bank Holding Company Act of 1956, any company that becomes a bank holding company must divest itself of certain commercial holdings it may own within two years. To that two-year grace period, the Fed may add up to three additional years. This was done for both Goldman and Morgan Stanley. The aluminum scandal broke, coincidentally, just a few months before Goldman's five-year grace period was scheduled to end. There was some expectation that the Fed might order the banks to divest some of their commercial holdings.

But there was a catch. "Congress in its infinite wisdom left an ambiguity," says Omarova. Although the Bank Holding Company Act mandated that the companies had to be compliant at the end of the review period, it didn't actually specify what the Fed had to do if they weren't. When Goldman's review period passed, "the Fed took the position that nothing had to happen," says Omarova. "So nothing happened."

The aluminum delays were not just an isolated incident of banks scheming to boost rent revenue. Recently, evidence has surfaced that the same kinds of behavior may be going on across the LME. In order for a parcel of metal to be traded on the LME, it has to be what's called "on warrant." If you are the owner of a metal that you no longer want to be traded, you can "cancel the warrant" – essentially taking it out of the system. It's still in the warehouse, but in a kind of administrative limbo.

When the world LME supply of a metal features high percentages of canceled stock, that typically means someone is moving metals around a lot even after they've been put into storage – perhaps in a Goldman-style "merry-go-round," perhaps for some other reason, but historically it has not been something seen often in functioning, healthy metals markets.

In January 2009, before the American too-big-to-fail banks and the shady Swiss commodities giants bought into all of these warehouses, less than one percent of the total global supply of LME aluminum was "canceled warrant." Today, with world supplies of aluminum about double what they were then, 45.2 percent of the total stock is classified as canceled. In Detroit, where Goldman is supposedly cleaning things up, the percentage is even crazier: 76.9 percent of the aluminum stock has canceled warrants.

You can see hints of the phenomenon in other LME metals. Five years ago, just 1.3 percent of the LME's copper stocks had canceled warrants. Today, 59 percent of it does. In January 2009, just 2.3 percent of zinc stocks were canceled; it's at 32 percent today. Zinc incidentally has something else in common with aluminum – a shipping-and-handling-like premium, called the U.S. zinc premium in the United States, which has skyrocketed in recent years, increasing by 400 percent between the summer of 2012 and the summer of 2013, when the price plateaued just as the aluminum scandal broke.

Then there's nickel. Thirty-seven percent of the global stock is now classified as canceled. Five years ago, 0.5 percent was. One industry insider, who is very familiar with and utilizes the nickel market, says that despite the fact that there is a massive global oversupply of the metal, prices are being artificially propped up as much as 20 to 30 percent.

He blames the banks' speculative weigh stations, saying that nickel producers, despite low global demand,

are cheerfully selling their stocks to bank-run warehouses, which are paying above-market prices to put raw materials into the merry-go-round. "They are happy to sell to the banks and to the warehouse supply, while they pray for demand to pick up," the insider said.

This leads to the next potentially disastrous aspect of this story: What happens if the Fed suddenly raises interest rates, and the banks, their access to free money cut off, can no longer afford to sit on piles of metal for 16 months at a time?

"Look at nickel," says Eric Salzman, a financial analyst who has done research on metals manipulation for several law firms. "You could see the price drop 20 to 30 percent in no time. It'd be a classic bursting of a bubble."

But the potential for wide-scale manipulation and/or new financial disasters is only part of the nightmare that this new merger of banking and industry has created. The other, perhaps even darker problem involves the new existential dangers both to the environment and to the stability of the financial system. Long before Goldman and Chase started buying up metals warehouses, for instance, Morgan Stanley had already bought up a substantial empire of physical businesses – electricity plants in a number of states, a firm that trades in heating oil, jet fuels, fertilizers, asphalt, chemicals, pipelines and a global operator of oil tankers.

How long before one of these fully loaded monster ships capsizes, and Morgan Stanley becomes the next BP, not only killing a gazillion birds and sea mammals off some unlucky country's shores but also taking the financial system down with them, as lawsuits plunge the company into bankruptcy with Lehman-style repercussions? Morgan Stanley's CEO, James Gorman, even admitted how risky his firm's new acquisitions were last year, when he reportedly told staff that a hypothetical oil spill was "a risk we just can't take."

The regulators are almost worse. Remember the 2008 collapse happened when government bodies like the Fed, the Office of the Comptroller of the Currency and the Office of Thrift Supervision – whose entire expertise supposedly revolves around monitoring the safety and soundness of financial companies – somehow missed that half of Wall Street was functionally bankrupt.

Now that many of those financial companies have been bailed out, those same regulators who couldn't or wouldn't smell smoke in a raging fire last time around are suddenly in charge of deciding if companies like Morgan Stanley are taking out enough insurance on their oil tankers, or if banks like Goldman Sachs are properly handling their uranium deposits.

"The Fed isn't the most enthusiastic regulator in the best of times," says Brown. "And now we're asking them to take this on?"

Banks in America were never meant to own industries. This principle has been part of our culture practically from the beginning of our history. The original restrictions on banks getting involved with commerce were rooted in the classically American fear of overweening government power – citizens in the early 1800s were concerned about the potential for monopolistic abuses posed by state-sponsored banks.

Later, however, Americans also found themselves forced to beat back a movement of private monopolies, in particular the great railroad and energy cartels built by robber barons of the Rockefeller type who, by the late 1800s, were on the precipice of swallowing markets whole and dictating to the public the prices of everything from products to labor. It took a long period of upheaval and prolonged fights over new laws like the

Sherman and Clayton anti-trust acts before those monopolies were reined in.

Banks, however, were never really regulated under those laws. Only the Great Depression and years of brutal legislative trench warfare finally brought them to heel under the same kinds of anti-trust concepts that stopped the robber barons, through acts like Glass-Steagall and the Bank Holding Company Act of 1956. Then, with a few throwaway lines in a 1999 law that nobody ever heard of until now, that whole struggle went up in smoke, and here we are, in Hobbes' jungle, waiting for the next fully legal catastrophe to unfold.

When does the fun part start?

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http://www.rollingstone.com/politics/news/the-vampire-squid-strikes-again-the-mega-banks-most-devious-scam-yet-20140212